LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6912 **NOTE PREPARED:** Feb 3, 2004
BILL NUMBER: SB 272 **BILL AMENDED:** Feb 2, 2004

SUBJECT: Closed Military Bases and Enterprise Zones.

FIRST AUTHOR: Sen. Weatherwax **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) The bill provides the following tax incentives to a business that locates new operations in certain qualified areas containing a completely or partially inactive or closed military base: (1) A Sales Tax exemption for sales of utility services or commodities made to the business within five years after the new operations commence. (2) An Adjusted Gross Income Tax rate of 5% for the year of relocation and the next succeeding four taxable years. The bill also provides a Military Base Investment Cost Credit against state tax liability for a taxpayer who purchases an ownership interest in or otherwise invests in a business located in a qualified area. It also provides that the tax incentives are not available to a business that does not have operations in a qualified area and that substantially reduces or ceases its operations at another location in Indiana in order to relocate them within the qualified area.

Effective Date: July 1, 2004; January 1, 2005.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax incentives under the bill. The DOR also would be required to make certain eligibility determinations relating to the investment tax credit claimed for debt financing to businesses in certain military base areas. The Indiana Department of Commerce (IDOC) also would incur administrative expenses relating to determining eligibility and credit amounts for the investment credit for debt financing. These expenses presumably could be absorbed given the existing budget and resources of each agency.

Explanation of State Revenues: (Revised) The bill establishes three new tax incentives relating to businesses that locate new operations or expand existing operations within the boundaries of: (1) a military base that is scheduled for closing or closed; (2) a Military Base Reuse Area; (3) an Economic Development Area established in connection with a closed military base; or (4) a Military Base Recovery Site. Currently, there are three installations in Indiana that are both Enterprise Zones and Military Base Reuse Areas - Grissom AFB in Miami County, Fort Benjamin Harrison in Marion County, and the Indiana Army Ammunition Plant in Clark County.

The total amount that could potentially be claimed by businesses under the three tax incentives is indeterminable. The net revenue impact of these tax incentives depends on extent that collections on taxable activities attributable to new business locations or business expansion within the military base areas is less than or exceeds the tax incentives claimed. It also depends on the extent that collections relating to relocated operations in the military base areas are less than or exceed the taxes that would otherwise have been collected on these operations elsewhere in the state. However, if the business location or expansion would have occurred in the absence of the tax incentives, the net impact would be the total of the incentives claimed by businesses. The incentives for businesses locating within these areas are as follows.

(1) The bill provides a Sales Tax exemption for utility services purchased by a business that relocates or expands all or part of its operations to a facility in one of the above-described military base areas; and uses the utility services within 5 years of commencing operations in the facility.

(2) The bill reduces the Adjusted Gross Income (AGI) Tax rate from 8.5% to 5% for a corporation that locates all or part of its operations to one of the above-described military base areas. The rate reduction applies only to income derived by the corporation from sources within the military base area during the taxable year in which the corporation located or expanded operations in the area, and the next four succeeding taxable years.

(3) The bill establishes a non-refundable AGI Tax credit (the Military Base Investment Cost Credit) for investment in a business that locates all or part of its operations to one of the above-described military base areas. Creditable investment would include both equity financing and debt financing. The bill allows the Indiana Department of Commerce (IDOC) to award credits for the cost of investment and for jobs created due to the investment. The percentage credits allowed vary depending upon the type of investment, the type of business, and the number of jobs created. (The credits are the same as those provided under the existing Enterprise Zone Investment Cost Credit.) The taxpayer may carry over any unused credit amount to subsequent taxable years. The taxpayer is not eligible to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

Generally, the three new tax incentives do not apply to a business that substantially reduces or ceases operations at another location in Indiana. (Note: This condition does not apply to equity financing under the Military Base Investment Cost Credit.) However, the incentives apply if the Department of State Revenue (DOR) determines that the business had existing operations in the military base area and the relocated operations are an expansion of those existing operations. The sales tax exemption is effective for transactions occurring after June 30, 2004. The income tax incentives are effective beginning in tax year 2005. Contingent on project startups, the fiscal impact could potentially begin in FY 2005 - with monthly sales tax remittances and changes in estimated quarterly income tax payments.

Revenue from the AGI Tax on corporations is distributed to the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce; State Department of Revenue.

Local Agencies Affected: Local units with closed military bases.

Information Sources:

Fiscal Analyst: Jim Landers, 317-232-9869.